



THE CITY OF SAN DIEGO

MEMORANDUM

DATE: September 23, 2010

TO: Members of the Budget and Finance Committee
Members of City Council

FROM: Jay M. Goldstone, Chief Operating Officer

A handwritten signature in black ink, likely belonging to Jay M. Goldstone.

SUBJECT: General Fund Major Revenues Update

This memorandum includes projections updated after the adoption of the FY 2011 Budget for property tax, sales tax, and transient occupancy tax revenues in the FY 2011 General Fund Budget. It should be noted that at this time of fiscal year, these are very preliminary projections based on limited revenue receipts.

Table I displays the FY 2011 Adopted Budget, the FY 2011 September projections, and the corresponding variances. The following sections discuss the revised estimates for three major revenues and explain the projected variances. These projections are based on the review of actual revenues, County and State tax data and projections, and include the information gathered from monitoring economic conditions in the local and regional economy. These are very preliminary projections, however, and as such will undergo future revision.

Table I

FY 2011 REVENUE PROJECTION

Revenue Type (\$ in millions)	FY 2011 Adopted Budget	FY 2011 September Projection	Variance
Property Tax	\$ 390.1	\$ 387.9	\$ (2.1)
TOT	\$ 66.1	\$ 66.7	\$ 0.6
Sales Tax	\$ 187.5	\$ 189.5	\$ 2.0
CHANGE	\$ 643.6	\$ 644.1	\$ 0.4

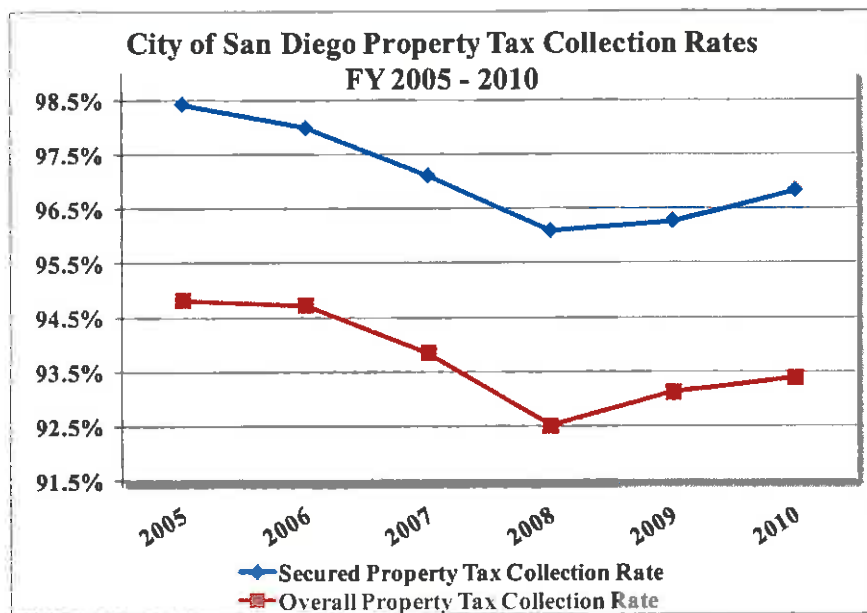
Property Tax

Since development of the FY 2011 Adopted Budget for property tax revenue, two key pieces to updating the projection have become available: 1) the County Assessor's Office has released the City's assessed value (AV) information, and 2) the City's property tax information for FY 2010 has become available.

The City's total AV for FY 2011 declined 1.47% or \$2.8 billion from FY 2010. This reduction takes into account the negative impact Proposition 13 had on AV in FY 2011 due to a drop in the California Consumer Price Index (CCPI). This decline in total AV negatively impacts the 1% property tax revenue projection for FY 2011 and has also impacted the motor vehicle license fee (MVLFF) back-fill portion of gross property tax revenue. After the adoption of the FY 2011 Budget, the City was notified of the actual amount of MVLFF back-fill that will be paid in FY 2011, which is \$1.3 million less than the budgeted figure.

However, the rate of property tax collection from homeowners increased in FY 2010 above projected amounts. As indicated by the recent stabilization or some improvement in local economic indicators such as unemployment, consumer confidence, foreclosures, and the median market value of residential properties; the average property owner's ability to pay property taxes has improved, resulting in an increase in the collection rate compared to FY 2009 (**Graph I**). Using this updated collection rate experienced in FY 2010, the amount of property tax revenue anticipated to be received in FY 2011 increases from the original projections.

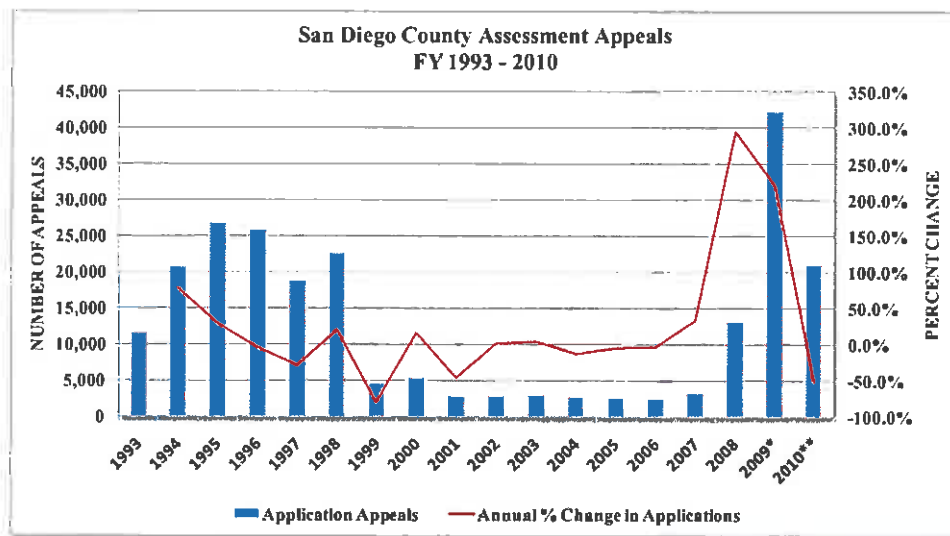
Graph I



Additionally, the City has also forecasted a reduction in refunds paid to property owners in FY 2011. The County Assessor's Office has approved over 63,000 applications for a reduction in AV in the last two fiscal years, and has also pro-actively reduced the AV of over 300,000 additional properties. Due to the size and scope of these reductions, the forecasted amount of refunds paid to owners, which negatively impacts the total property tax revenue received by the

City, is expected to decrease in FY 2011. **Graph II** demonstrates the number of homeowners' assessment appeals since FY 1993 and percent change compared to prior year.

Graph II



Accounting for the decline in the City's AV and its impact on the 1% property tax and MVLFF amounts, offset by the increase in the projected collection rate of property taxes and reduction in refunds, the updated property tax projection for FY 2011 is \$387.9 million or \$2.1 million less than the FY 2011 Adopted Budget.

It should be mentioned that this projection is also subject to change based on additional information to be received from the County Assessor's Office in October, 2010. This updated information will reflect the total amount of property tax receivables due to the City in FY 2011. This updated property tax roll, in combination with aforementioned collection rates and refunds, will provide a more solid projection for property tax revenue in FY 2011. The updated forecast for property tax revenue will be included in Financial Management's First Quarter Budget Monitoring Report.

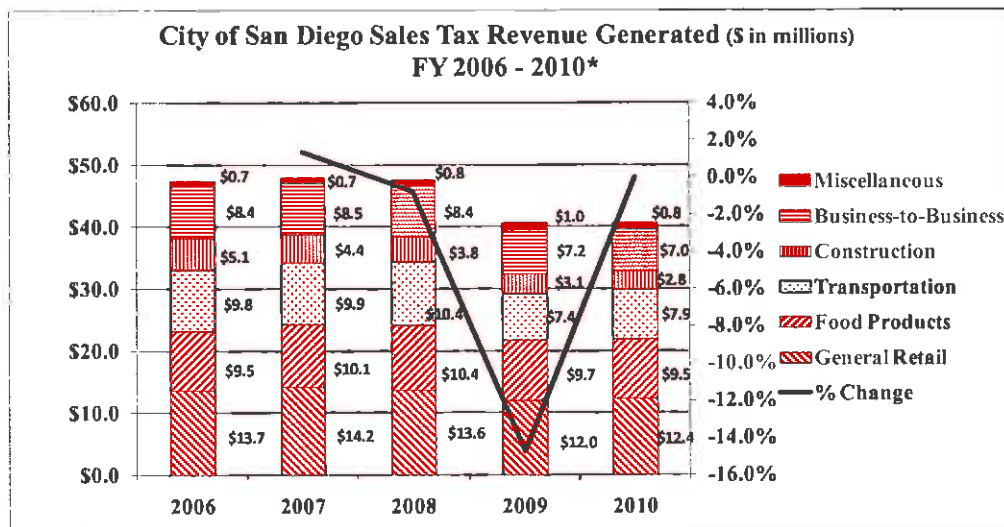
Sales Tax

Since the adoption of the FY 2011 Budget, updated taxable sales performance in late FY 2010 has changed the sales tax revenue projection for FY 2011. Actual sales tax revenue performance is determined by the State Board of Equalization (BOE), which administers all aspects of sales tax revenue and distributes sales tax revenue to the City. Distributions made by the BOE to the City are based on estimates for growth in taxable sales transactions over the same quarter in the prior fiscal year. At the end of each quarter, the BOE then calculates sales tax revenue for each jurisdiction based on actual growth.

In the latest information received from the BOE for individual retail sector performance, the first quarter of calendar year 2010 taxable sales (revenue received for the fourth quarter of FY 2010) stabilized after declining in both FY 2008 and FY 2009. As can be seen in **Graph III**, growth in general retail and transportation offsets continuing declines in construction and business-to-

business sales. Gains in the general retail and transportation categories were due to increases in apparel sales in department stores and individual shops, new car sales, and an increase in sales tax derived from gasoline sales. Updated information on individual category performance in taxable sales for the second quarter of calendar year 2010 (revenue received for the first quarter of FY 2011) will become available from the BOE in October, 2010.

Graph III



*As of September 2010, only the 1st quarter 2010 information is available; therefore, this graph represents the comparison between first quarters of each fiscal year.
Source: MuniServices, LLC

This updated information resulted in a projected positive variance of \$2.0 million in sales tax revenue for FY 2011. The City's estimated growth rate in taxable sales of 0.0% for the remainder of FY 2011 has not been changed due to mixed economic indicators (even though some have shown some improvement). Any drop in consumer spending will quickly impact the sales tax revenue received by the City. If economic indicators remain positive, the growth rates for the remainder of FY 2011 may be revised.

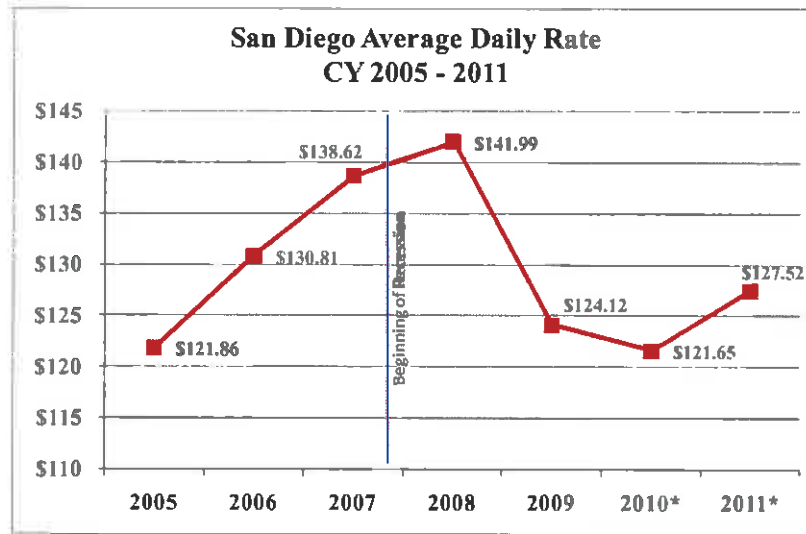
Transient Occupancy Tax

Better than expected transient occupancy tax (TOT) receipts for June and July 2010 have resulted in revised FY 2011 General Fund TOT projections that exceed the budget by \$555,000 (\$1.06 million citywide). Due to limited FY 2011 receipts as of September, 2010, FY 2011 TOT estimates continue to be conservative with flat growth assumed in the remaining periods of FY 2011.

With some signs of economic stabilization, leisure and business travel have somewhat improved thus positively affecting TOT revenues in June and July, 2010. Information provided by the San Diego Convention and Visitor Bureau (CONVIS) credits business travel for spurring the improvement in growth as companies begin to spend on travel that was deferred during the low of the economic downturn. The growth expectations must be tempered though as the high unemployment rate and cautious consumer spending continue to hamper leisure travel growth. Even so, year-over-year TOT receipts by activity period have begun to show positive growth.

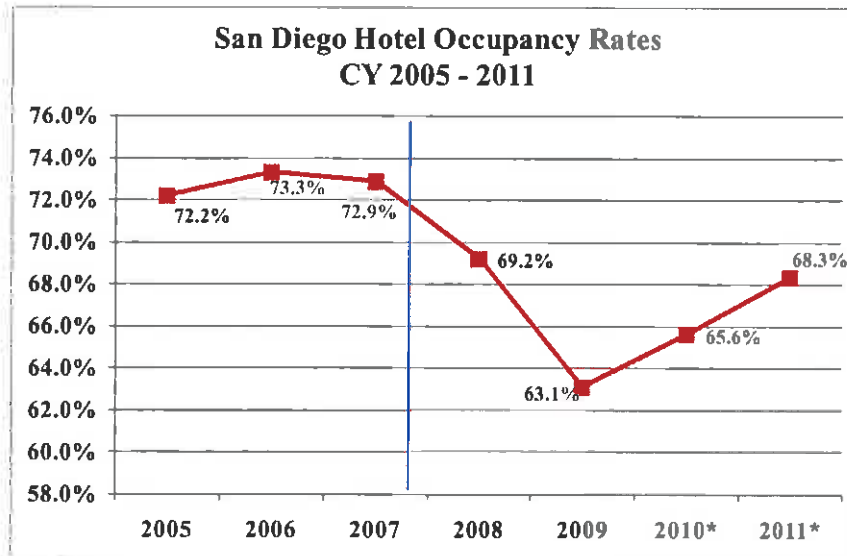
Growth projections from CONVIS in the average daily rate (ADR) and room demand for calendar year 2010 and 2011 (**Graphs IV, V**) combined with positive revenue variances received in FY 2011, could result in additional revenues above the current updated projection. At this time, however, the TOT projection remains conservative with no growth in revenue projected over prior fiscal year's revenues for the remainder of the current fiscal year due to the same unpredictability in consumer discretionary spending that influences sales tax receipts.

Graph IV



*Forecast. Source: CONVIS

Graph V



*Forecast. Source: CONVIS

Summary

This memorandum presents the updated projections for the FY 2011 General Fund major revenues incorporating actual revenue receipts. A future update on the status of the General Fund major revenues will be included in the FY 2011 First Quarter Budget Monitoring Report to be presented to City Council in December, 2010. Other General Fund revenues (such as departmental revenues) and expenditures have not been evaluated for this report but will be included in the FY 2011 First Quarter Budget Monitoring Report.

Jay M. Goldstone
Chief Operating Officer

cc: Honorable Mayor Jerry Sanders
Mary Lewis, Chief Financial Officer
Andrea Tevlin, Independent Budget Analyst